

DEPENDENT CARE EXPENSES

You can be reimbursed for qualifying dependent care expenses that meet certain requirements as described below. Reimbursements can be made up to the amount actually contributed to your account, less prior reimbursements.

1. The expenses must be incurred to enable you to be gainfully (earning income) employed. Gainful employment does not include unpaid volunteer work, or work for a nominal salary. The expense must be incurred for services rendered after the effective date of this election and during the plan year to which it applies. **Expenses are treated as having been incurred when you are provided with the care that gives rise to the expense, and not when you are formally billed, charged for, or pay for the care.**
2. The expenses must be for a qualifying individual. This includes a dependent of yours under age 13 when the care is provided; or a spouse or other dependent of yours who is physically or mentally incapable of self-care and for whom you can claim an exemption.
3. The services must be provided by an eligible provider of childcare. This includes a licensed daycare facility that complies with applicable state and local laws; and any individual who is not a tax dependent of yours, or a child of yours age 19 or older.
4. The expense must be for services incurred, not for services to be provided in the future.
5. The annual expense reimbursement may not exceed the lesser of:  
a. your earned income,  
b. if married, your spouse’s earned income; or,  
c. \$5,000 (\$2,500 if married, filing separate income tax returns).
6. You must file Form 2441 annually with your individual tax return identifying all your dependent care providers.

**Note:** The amount which you may consider in calculating the tax credit under the Federal Tax Credit is reduced, dollar-for-dollar, by any amount that you place into the Dependent Care Account. The tax credit limits are \$3,000 for one qualifying dependent, and \$6,000 for two or more qualifying dependents. **You should carefully review the benefits of the Federal Tax Credit with the benefits of the Dependent Care Account and seek advice from your personal tax advisor before making your final decision.** Visit our tax credit wizard at [www.mypayflex.com](http://www.mypayflex.com) for assistance.

Qualifying Dependent Care Expenses

- Work-related expenses incurred so that you and, if married, your spouse can work
- Custodial care for qualified tax dependents; before/after school care
- Preschool/nursery school for pre-kindergarten; day care center expenses for custodial care
- Au pair or nanny dependent care expenses; adult day care expenses
- Looking for work expenses

Note: Ineligible Dependent Care Expenses

- Educational/tuition – kindergarten, first grade or higher
- Registration/reservation/holding fees
- Activity fees or fees for supplies or materials/field trip expenses
- Overnight camp (not even the portion attributable to the daytime cost)
- Transportation expenses, food, clothing, entertainment expenses
- Payment of services not yet provided (advance payments)
- Payment of services while you are off work due to illness, maternity or other leave, or vacation
- Payment of services where you are not the custodial parent (in divorce situations)

Dependent Care Planning Worksheet

This worksheet will help you determine the dollar amount you will spend for dependent care during the plan year. Keep the following in mind when estimating your expenses:

- Reimbursements can be made up to the amount actually contributed to the account, less prior payments.
- Amounts you pay for dependent care while you are off work because of vacation, holidays or illness/injury are not eligible expenses.
- If your dependent is a student, your expense may be different when school is not in session.
- Your, or your spouse’s, work schedule may affect your total expenses.
- Estimate your expenses on a monthly basis, since the amounts may fluctuate throughout the plan year.

January	\$ _____
February	\$ _____
March	\$ _____
April	\$ _____
May	\$ _____
June	\$ _____
July	\$ _____
August	\$ _____
September	\$ _____
October	\$ _____
November	\$ _____
December	\$ _____
<b>Total</b>	<b>\$ _____</b>

CUSTOMER SERVICE

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Health Care and Dependent Care Flexible Spending Accounts (FSA) Benefit Plan

Flexible spending accounts are a tax-advantaged way to pay for qualified out-of-pocket health care expenses, and work-related day care expenses. This benefit allows you to pay your expenses with “pre-tax” dollars, which means you get a tax deduction for these expenses before you ever file your tax return.

Authorized by the IRS, these accounts let you set aside money from your pay before taxes are withheld. As you incur health care expenses or dependent day care expenses throughout the year, you submit a claim for those expenses and are reimbursed with tax-free dollars from your account.

The Health Care Account reimburses you for out-of-pocket health care expenses for medical, dental, vision, hearing and pharmaceutical expenses. The Dependent Care Account reimburses you for dependent day care expenses you incur in order to allow you and, if married, your spouse to work. When you use these accounts, you reduce your taxable income, so you will pay less in income taxes.

How the Accounts Work

- You decide if you want to use the Health Care and/or the Dependent Care Account. This is how it works:
- You estimate the amount you will spend on out-of-pocket health care expenses and/or day care expenses during the year. Estimate conservatively, and review prior year’s expenses to help you determine what to anticipate for this year. Plan only for predictable expenses.
  - You decide how much you wish to set aside into your Health Care Account and/or your Dependent Care Account. Then, complete the necessary enrollment forms through your employer.
  - The amounts you wish to set aside into your accounts will come out of your paycheck in equal amounts on a schedule established by your employer.
  - As you incur health care or day care expenses throughout the year, you submit a claim form along with documentation of your expenses. Reimbursements from your accounts are made on a schedule determined by your employer, and you may file claims as often as you wish.
  - Reimbursements may be made by check sent to your home address or by direct deposit to a bank account of your choice.
  - Dollars left over in your account at the end of the year are forfeited. You can avoid forfeitures if you plan carefully (review prior year’s expenses to estimate what you will have the next year, be conservative, and plan only for predictable expenses).

The Tax Advantage

Remember, the advantage of using flexible spending accounts is that you don’t pay Federal income or Social Security taxes on this money before it goes into your account, and you don’t owe taxes on it when it is paid out to you. In most states, you don’t pay state taxes either.

By paying your out-of-pocket health care and day care expenses through the spending accounts, you can lower your taxable income and that means you lower your income taxes. In this way, you add dollars to your spendable income and that means you have more take-home pay and more money in your pocket! The following illustration will give you a good idea of how the tax savings are calculated.

	Without PayFlex	With PayFlex
Total Annual Income	\$30,000.00	\$30,000.00
Annual Health Care Expenses		\$ 720.00
Annual Dependent Care Expenses		\$ 3,600.00
Total income subject to taxes	\$30,000.00	\$25,680.00
Less Deductions:		
Federal/State Taxes	\$ 5,400.00	\$ 4,622.00
Social Security/FICA	\$ 2,295.00	\$ 1,965.00
After Tax Income	\$22,305.00	\$19,093.00
Less Deductions:		
Annual Health Care Expenses	\$ 720.00	
Annual Dependent Care Expenses	\$ 3,600.00	
Spending Income	\$17,985.00	\$19,093.00
Net increase in spending income		\$ 1,108.00
Monthly increase in spending income		<u>*\$ 92.00</u>
Annual increase in spending income		<u>*\$ 1,108.00</u>

*\*Your increase in spendable income may vary based on withholding elections and state income tax. This illustration assumes 15% Federal tax, 3% state tax, and 7.65% Social Security/FICA tax.*

Special Plan Rules

- You may enroll in this plan **ONLY** during open enrollment or when you first become eligible. This enrollment covers your pay periods only from your effective date through the end of your plan year.
- Once you establish your plan year contribution, you may only change it if you experience a change in status as described below.
- Any amounts left in your accounts at the end of the plan year will be forfeited. It is important that you establish your account carefully to avoid forfeitures. You can avoid forfeitures by reviewing prior year’s expenses, being conservative, and planning only for predictable expenses. You may file plan year claims through the run-out period as established by the plan.
- You don’t have to enroll in your employer’s health insurance plan in order to participate in the health care account. If you or family members are covered for health insurance elsewhere, you can still claim qualifying out-of-pocket health care expenses under the health care account.
- Remember that your expenses must be incurred during your period of coverage. Expenses are considered as having been incurred when you are provided with the health or dependent care that gives rise to the expense, and not when you are formally billed, charged for, or pay for the care.

Change in Status Rules

- Internal Revenue Service guidelines allow you to change your plan contribution during the plan year only upon:
- Change in legal marital status (marriage, divorce, legal separation, annulment, death of spouse)
  - Change in number of tax dependents (birth, adoption, death)
  - Change in employment status that affects eligibility
  - Dependent satisfying or ceasing to satisfy coverage requirements (reaching limiting age, gain/loss of student status, marriage)
  - Change in residence that affects eligibility

To apply for a change, you must complete a change in election form through your employer’s HR/Benefits department within 30 days of the date of the event. The requested change must be consistent with the event. Your employer will review the request and make a final decision as to whether the requested change qualifies.

HEALTH CARE EXPENSES

Health care expenses include amounts paid for the diagnosis, cure, mitigation, treatment, or prevention of disease, and for treatments affecting any part or function of the body. The expenses must be primarily to alleviate or to prevent a physical or mental defect or illness. Expenses for solely cosmetic reasons generally are not expenses for medical care. Also, expenses that are merely beneficial to one’s general health are not expenses for medical care. **In some cases, you may be asked to provide a letter from your attending physician to substantiate your claim.**

You may be reimbursed for qualified health care expenses that meet certain requirements as described below. Reimbursements can be made up to your plan year elected amount, less prior reimbursements, regardless of the amount actually contributed to your account.

- The expenses must be incurred for services rendered after the effective date of your election and during the plan year to which it applies. **Expenses are treated as having been incurred when you are provided with the care that gives rise to the expense, and not when you are formally billed, charged for, or pay for the care.**
- Each individual for whom you incur the expense is:
  - a dependent under age 19 or, if older, is a full-time student whom you are entitled to claim as a dependent on your federal income tax return;
  - A spouse; or,
  - Other tax dependent who is physically or mentally incapable of self-care.
- The expenses must be for services incurred and already provided, not for services to be provided in the future.
- The expenses cannot have been reimbursed, and must not be reimbursable by insurance or any other source; and you cannot claim the same expenses as a deduction on your annual income tax return.
- Individual insurance premiums, other group insurance premiums, and long-term care expenses are not eligible.

Qualifying Health Care Expenses

**Medical**  
Deductibles, co-pays, coinsurance  
Prescription drugs, allergy shots, insulin & syringes, annual physicals  
Over-the-counter (OTC) medicines and drugs  
Chiropractor treatments, psychiatric/psychologist fees  
Smoking cessation programs, weight loss programs for disease  
Wheelchair/crutches or other durable medical equipment

**Dental**  
Deductibles, co-pays, coinsurance  
Routine exams, x-rays, fillings, root canals  
Crowns, bridges, dentures, orthodontia

**Vision**  
Eye Exams, prescription eyeglasses and prescription sunglasses  
Corrective eye surgery (LASIK, cataract, corneal rings, etc.)  
Contact lenses, cleaning solutions, storage case

**Hearing**  
Hearing exams, hearing aids & batteries

**Note: Ineligible Health Care Expenses**  
Cosmetic procedures and medications (teeth whitening, chemical peels, Retin-A, etc.)  
Marriage/Family counseling  
Insurance premiums, long term care  
Lamaze/Childbirth classes

Health club memberships/dues  
Home exercise equipment for general health  
Massage therapy for general health  
Payment of services not yet provided  
Payment of service not incurred during the period of coverage  
Treatments for general health  
Vision service contracts, sunglasses  
Vitamins and dietary supplements for general health

Health Care Planning Worksheet

UNREIMBURSED HEALTH CARE EXPENSES

	Annual Estimate
<b>Medical Expenses not covered by Insurance</b>	
Deductibles, co-pays, coinsurance	\$ _____
Physician visits/routine exams	\$ _____
Prescription Drugs	\$ _____
Insulin/Syringes	\$ _____
Annual physicals	\$ _____
Chiropractic treatments	\$ _____
OTC medicines/drugs (allergy, antacids, cold medicines, pain relievers)	\$ _____
Other_____	\$ _____
Subtotal medical	\$ _____
<b>Dental Expenses not covered by Insurance</b>	
Checkups/cleanings	\$ _____
Fillings	\$ _____
Root canals	\$ _____
Crowns/bridges/dentures	\$ _____
Oral Surgery	\$ _____
Orthodontia	\$ _____
Other_____	\$ _____
Subtotal dental expenses	\$ _____
<b>Vision/Hearing Expenses not covered by Insurance</b>	
Exams	\$ _____
Eyeglasses/reading glasses	\$ _____
Prescription sunglasses	\$ _____
Contact lenses & cleaning solutions	\$ _____
Corrective eye surgery (LASIK, cataract etc.)	\$ _____
Hearing exams/hearing aids & batteries	\$ _____
Other_____	\$ _____
Subtotal vision/hearing	\$ _____
<b>TOTAL UNREIMBURSED HEALTH CARE EXPENSES</b>	\$ _____